DOCUMENT RESUME

ED 437 571 CE 079 662

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TITLE	VA Student Financial Aid: Potential Effect of Providing Education Tax Benefit Eligibility to Students Receiving VA Assistance.
INSTITUTION	General Accounting Office, Washington, DC. Health, Education, and Human Services Div.
REPORT NO	GAO/HEHS-00-40R
PUB DATE	2000-01-27
NOTE	10p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20884-6015 (first copy free; additional copies $2.00 each; 100 or more: 25% discount). Tel: 202-512-6000; Web site: http://www.gao.gov.
PUB TYPE	Legal/Legislative/Regulatory Materials (090) -- Reports - Evaluative (142)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	*Certification; *Eligibility; *Financial Aid Applicants; Financial Services; Higher Education; Paying for College; Student Financial Aid; *Training Allowances; *Veterans Education
IDENTIFIERS	Higher Education Act Title IV; *Taxpayer Relief Act 1997

ABSTRACT

Some students receiving financial assistance for their education from the Department of Veterans Affairs (VA) may not also be eligible for tax benefits for education under the Taxpayer Relief Act of 1997 (P.L. 105-34). For students to be eligible for the tax benefits, they must have incurred their educational expenses at schools eligible to participate in federal student aid programs under Title IV of the Higher Education Act of 1965 (certified by the Department of Education), and their expenses must exceed their VA allowance. Schools with VA-approved courses in Indiana, Texas, and Virginia were examined in order to determine the major differences between the VA process of approving courses of study and the Department of Education's process of certifying schools. The study also sought to determine how many students and schools could be affected by expanding eligibility for educational tax benefits to include schools that the Department of Education does not now certify. The study found that, for the 3 states reviewed, 344 students (2.3%) of the 14,982 students receiving VA assistance attended 83 schools that the Department of Education had not certified and were therefore not eligible to participate in education tax benefit programs. If eligibility were extended to these uncertified schools, 65 of the 344 students could potentially qualify for education tax benefits. These 65 students, enrolled in 11 schools, were also potentially eligible for tax benefits because it was estimated that their tuition and fees exceeded their VA education assistance. It could not be determined whether the schools and students in the three states were representative of all schools and students involved in the issues throughout the country. (KC)

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ED 437 571

B-284352

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January 27, 2000

The Honorable Richard G. Lugar
United States Senate

Subject: VA Student Financial Aid: Potential Effect of Providing Education Tax Benefit Eligibility to Students Receiving VA Assistance

Dear Senator Lugar:

Some students receiving financial assistance for their education from the Department of Veterans Affairs (VA) may not also be eligible for tax benefits for education under the Taxpayer Relief Act of 1997 (P.L. 105-34). For students to be eligible for the tax benefits, they must have incurred their educational expenses at schools eligible to participate in federal student aid programs under title IV of the Higher Education Act of 1965, as amended.[1] For a school to participate in these programs, the Department of Education must certify that it has met federal requirements.[2] Students receiving educational assistance from VA may be eligible for education tax benefits if their qualified school expenses exceed the amount of their tax-free VA assistance and if they are enrolled in a school that Education certifies.[3]

Because student eligibility for education tax benefits depends on the certification of schools by Education rather than by VA, you asked us to answer the following questions:

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[1]The principal federal student financial aid programs authorized by title IV include the Federal Pell Grant Program, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program.

[2]In some instances, schools that have applied for certification are approved by the Department of Education to participate in student aid programs while certification is pending. Our use of the term "certification" includes such schools.

[3]A benefit may be derived from various educational tax programs, including the Hope Scholarship Credit, the Lifetime Learning Credit, the education loan interest deduction, the Education Individual Retirement Account (Education IRAs), and qualified state tuition programs. For example, a benefit could be a credit against income taxes owed or a reduction in the amount of adjusted gross income. For student loan interest deductions, certain institutions with internships or residency programs not approved for title IV participation may be eligible.

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- What are the major differences between VA's process of approving courses of study and Education's process of certifying schools?

- How many VA students and schools could be affected by expanding eligibility for educational tax benefits to include schools that Education does not now certify?

To address these questions, we examined schools with VA-approved courses in three states–Indiana, Texas, and Virginia.[4] Collectively, schools in the three states enrolled about 14 percent of all students receiving VA education assistance in June 1999.[5] Our findings regarding VA students in these three states should be viewed as representative only of the circumstances of those students, not VA students nationwide. Using both VA and Education records, we identified the number of students receiving VA education assistance who attended schools that Education had not certified. For VA students attending uncertified schools, we estimated the number whose tuition and fees would exceed their annual VA education assistance, assuming they were entitled to receive full-time assistance. Our work also included discussions with Education, VA, and other officials as well as representatives of 83 schools with VA-approved courses that Education has not certified. We conducted our study between July and November 1999 in accordance with generally accepted government auditing standards.

In summary, the main difference between the processes VA and Education use to determine whether schools can participate in their student financial assistance programs is that Education cannot certify a school unless it has been accredited by a recognized accrediting agency, whereas VA can approve individual courses of study at schools whether or not the schools have been accredited. For the three states we reviewed, 344 (2.3 percent) of the 14,982 students receiving VA assistance attended 83 schools that Education had not certified and were therefore not eligible to participate in education tax benefit programs. If eligibility were extended to these uncertified schools, 65 of the 344 students could potentially qualify for education tax benefits. These 65 students, enrolled in 11 schools, were potentially eligible for tax benefits because we estimated that their tuition and fees exceeded their VA education assistance.

Differences in VA's Approval and Education's Certification Processes

Both VA and Education have established processes for ensuring that schools provide quality education and training to students who are eligible for their student financial assistance programs. Additionally, VA and Education base their standards for

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[4]For this review, the term "schools" includes a broad spectrum of postsecondary education and training institutions, including those providing typical college degrees as well as those providing noncollege degree vocational training and on-the-job or apprenticeship training.

[5]These include veterans, servicepersons on active duty, reservists, and eligible dependents but exclude veterans and servicepersons receiving VA vocational rehabilitation benefits.

approving or certifying schools and courses on federal laws and regulations. Under these requirements, Education certifies schools while the VA is responsible for the approval of courses.

- Education uses a three-pronged approach in certifying schools. In order for students attending a school to receive title IV financial aid, the school must be (1) accredited by an entity recognized for that purpose by the Secretary of Education, (2) licensed or otherwise legally authorized to provide postsecondary education in the state in which it is located, and (3) approved by Education as having adequate administrative capacity and financial responsibility.[6]

- VA has delegated most course approvals to state approving agencies, which assess whether schools and training programs offer education of sufficient quality for veterans to receive VA education assistance when attending them. A state's approving agency is usually part of its department of education and is federally funded. It performs the course approval function for schools by evaluating such aspects as course quality, school financial stability, and student progress. Unlike in Education's process, state approving agencies can approve courses of study at schools that have not been accredited by a recognized accrediting body.

In an October 1995 report, we analyzed and compared the regulatory standards that VA and Education use to approve schools.[7] Our work showed that although the activities and processes

VA and Education used to ensure quality schooling for their financially aided students differed, the standards their assessments were based on were similar. According to VA and Education officials, the basic processes and standards for approving and certifying schools remain as we described them in the 1995 report.

The Effect of Expanding Eligibility for Education Tax Benefits

Only 15 percent of the schools with VA-approved courses in Indiana and Texas and had not been certified by Education. Of the 14,982 students receiving VA education assistance, 344 (2.3 percent) attended 83 schools that Education had not certified. As of June 30, 1999, VA had approved courses at 553 schools in the three states, and Education had certified 470 of them. The 344 students receiving VA education assistance at the 83 uncertified schools were not eligible for education tax benefits

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[6]Examples of accrediting entities include the Northwest Association of Schools and Colleges Commission on Colleges, which accredits institutions in seven states, and the American Assembly of Collegiate Schools of Business, which nationally accredits collegiate institutions offering degrees in business administration and accounting.

[7]VA Student Financial Aid: Opportunity to Reduce Overlap in Approving Education and Training Programs (GAO/HEHS-96-22, Oct. 30, 1995).

authorized by the Taxpayer Relief Act of 1997 because Education had not certified the schools they attended. (See table 1.)

Table 1: VA Students at Schools With VA-Approved Courses and Not Certified by Education, June 30, 1999

	Indiana	Texas	Virginia	Total
Schools with VA-approved courses				
Total schools	94	293	166	553
Uncertified schools	10	51	22	83
Uncertified schools as a percentage of total schools	10.6%	17.4%	13.3%	15.0%
Students at schools with VA-approved courses				
Total VA students	1,446	8,390	5,146	14,982
VA students at uncertified schools	25	157	162	344
VA students at uncertified schools as a percentage of total students	1.7%	1.9%	3.1%	2.3%

In general, the 83 uncertified schools in the three states were unlike the types of schools VA students attended nationwide. For example, schools offering typical 2-year, 4-year, or postgraduate college degrees made up 72 percent of the schools VA students attended nationwide. In comparison, only 16 percent of uncertified schools in the three states were in this group. Of the uncertified schools, 73 percent were vocational training schools that do not award college degrees, and 11 percent were of the type that offered on-the-job or apprenticeship training.

Even if education tax benefit programs were extended to VA students attending uncertified schools, few students would be likely to make use of them. Of the 344 students receiving VA education assistance and attending schools that Education had not certified, we estimate that only 65 (19 percent) had tuition and fees that would exceed their full-time VA education assistance. For example, three veterans were in a 12-month training program to earn a vocational nursing certificate from a proprietary health institute. Their $853 monthly tuition and fees exceeded their monthly $536 full-time VA education assistance. Assuming they had sufficient income to owe taxes, the 65 students could potentially use education tax benefits if their eligibility were expanded to include schools that Education had not certified.

The 279 other students did not have sufficient qualified education expenses to apply to an education tax program for a possible tax benefit.[5] These students' VA education assistance, which is tax-free income and is deducted from out-of-pocket

[5]For the purpose of this analysis, we assumed that the students were full-time undergraduates and that their only qualified school expenses were tuition and fees, although other types of expenses could qualify under some tax benefit programs.

education expenses in determining the amount of their education tax benefits, equaled or exceeded their tuition and fees.

Overall, we estimated that the total annual tuition and fees for the 65 students who could potentially benefit from education tax benefits was $454,298 and exceeded their full-time annual VA education assistance by $183,663. On average, school expenses for the 65 students exceeded their VA assistance by $2,826 each. The 65 students amount to only a small fraction (0.43 percent) of all VA students in the states we reviewed and attended only 11 of the 553 schools in those states. This finding cannot be generalized, however, to all schools with VA-approved courses and VA students attending them. The results can be viewed only as indicative of VA students attending schools in the three states. (The enclosure lists the 11 schools in which the 65 students were enrolled and other selected characteristics.)

Agency Comments

The Department of Veterans Affairs and the Department of Education reviewed a draft of this letter. They had no comments.

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We are sending copies of this letter to the Honorable Togo D. West, Jr., Secretary of Veterans Affairs, and the Honorable Richard W. Riley, Secretary of Education and will make it available to others on request.

If you or your staff have any questions or wish to discuss this material further, please call me or Jay Eglin, Assistant Director, at (202) 512-7215. Major contributors included Daniel Jacobsen and Robert Miller.

Sincerely yours,

Barbara D. Bovbjerg
Associate Director, Education, Workforce
and Income Security

Enclosure

ENCLOSURE

SELECTED SCHOOLS WITH VA-APPROVED COURSES NOT CERTIFIED BY THE DEPARTMENT OF EDUCATION

This table gives information on schools with courses approved by the Department of Veterans Affairs (VA) in Indiana, Texas, and Virginia that were not certified by the Department of Education and had 65 VA students in June 1999 who had tuition and fees estimated to exceed full-time VA education assistance.

School	State[a]	Type[b]	Control[c]	Number of students[d]			Monthly tuition and fees[e]
				Veterans and servicepersons	Dependents	Reservists	
American Military University	Va.	IHL	Proprietary	36		9	$833
Anthony's Barber College[f]	Va.	NCD	Proprietary			1	444
Cayce/Reilly School of Massotherapy	Va.	NCD	Private	3			738
World College	Va.	IHL	Proprietary			2	332
Embry-Riddle Aeronautical University	Tex.	IHL	Private			3	494
Health Institute of San Antonio	Tex.	NCD	Proprietary	3	1		853
Pace Travel School	Tex.	NCD	Proprietary	1			713
Parkland Hospital School of Nurse-Midwifery	Tex.	NCD	Public	1			833
SST Travel Schools of Texas, Inc.	Tex.	NCD	Proprietary	2			675
St. Luke's Episcopal Hospital	Tex.	NCD	Private	2			750
Wellness Skills, Inc.	Tex.	NCD	Proprietary			1	374

[a]Excludes Indiana because there were no schools that Education did not certify where student expenses exceeded full-time VA assistance.
[b]IHL: institution of higher learning; NCD: noncollege degree, vocational.
[c]Proprietary, for-profit; private, nonprofit; or public.
[d]The number of VA students whose estimated school expenses exceeded full-time VA assistance. Full-time VA education assistance rates effective October 1, 1999, for veterans and active duty servicepersons are $536 per month; for dependents and reservists, they are $485 and $255, respectively.
[e]Current tuition and fees were generally acquired from school officials in September 1999 and may include required textbooks.
[f]Latest available tuition and fee amounts were from 1996.

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